TFSA Investors: Where to Invest $5,000 Now

Description

When is the right time for investors, using their Tax-Free Savings Accounts (TFSAs), to put their money to work?

In my view, any time is good to start creating a solid income stream for your retirement or other needs. The reality in this perpetually low interest rate environment is that TFSA investors need to have a good chunk of their portfolio tied to dividend stocks that pay higher yields and have the ability to survive in the toughest economic environment, such as the one we're seeing after the coronavirus pandemic.

If you've a small, unutilized space in your TFSA, even as little as $5,000, then the best route for you is to buy quality dividend stocks that have the ability to recover from downturns and continue to pay you regular income.

Here are three to dividend stocks to help you get started.

Toronto-Dominion Bank

Canadian banks are some of the best dividend-paying stocks in North America. What makes them different from their peers north of the border is less competition, a sound regulatory environment, and diversification.

They operate in a kind of oligopoly where competition is limited, and the regulatory environment is very favourable for their growth. Canada's top lenders have been very consistent in rewarding investors through steadily growing dividends. They spend about 40-50% of their income paying dividends. Such predictability is unique and makes them very attractive targets for TFSA investors.

In this group, I particularly like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), Canada's second-largest lender. The lender has a very attractive dividend policy supported by strong growth momentum. TD also has a significant retail banking operation in the United States. You may be surprised to know that TD has more retail branches in the U.S. than in Canada with a network that stretches from Maine to Florida.

After the current market sell-off, TD stock is now yielding more than 5%, offering a great entry to long-term investors. The bank is forecast to grow its dividend payout between 7% and 10% each year going forward — an impressive growth rate at a time when the 10-year government note is yielding less than 1%. TD stock, after falling 17% this year, was trading at $60.29 today.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a top pick among the Canadian energy infrastructure companies. Through its constant growth and a smart acquisition strategy, the company has reached a scale that will enable it to produce a steady income stream for TFSA holders for a long time.

Power and gas utilities generally offer a good income stream if you remain invested for the long run. Enbridge is North America's largest pipeline operator. Due to the company's massive moat and its crucial position in the region's energy supply chain, its stock is considered defensive and a good fit for TFSA portfolios.

Offering an 8.1% annual dividend yield following the post-pandemic weakness in markets, Enbridge is now one of the top-yielding stocks from Canada. The company has paid dividends for over 66 years to its shareholders. It was trading at $40.26 after a 22% plunge.

CN Rail

Canadian National Railway (TSX:CNR)(NYSE:CNI) runs a 100-year-old railway business and has a strong leadership position in the transportation sector.

One major reason that makes CN Rail a top stock to buy is that the company provides a crucial link to the expanding North American economy. CNR runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico. I don't think that dominant position is under threat any time soon, even if we slip into a deep recession.

The best companies for long-term TFSA investors are those that operate in duopolies, because they command pricing power after creating a strong economic moat that stops competition from challenging their dominance. The Canadian rail industry is a quintessential duopoly dominated by CNR and **Canadian Pacific Railway**.

Trading at $80.59, CNR now yields more than 2%. That yield may look meagre to you in comparison with other dividend stocks, but CN Rail is also a great growth stock. Over the past 10 years, CNR stock has delivered about 200% capital growth, including dividends.

CATEGORY

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TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:ENB (Enbridge Inc.)
6. TSX:TD (The Toronto-Dominion Bank)

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